

Message Text

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60

ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

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TO SECSTATE WASHDC 1409

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C O N F I D E N T I A L ANKARA 8590

E.O.11652: GDS

TAGS: EFIN, EGEN, TU

SUBJECT: FURTHER EURO-DOLLAR FINANCING FOR TURKEY AND IMF
COMPENSATORY FINANCING

REF: ANKARA 5213 (NOTAL); ANKARA 8459 (NOTAL); ANKARA A-128

1. EMBASSY HAS BEEN INFORMED BY REPRESENTATIVES MORGAN GUAR-
ANTY TRUST (LONDON) AND CITICORP INTERNATIONAL (LONDON) THAT THEY
HAVE REACHED AGREEMENT IN PRINCIPLE TO PROVIDE GOT WITH
\$150 MILLION EURO-DOLLAR LOAN.

2. LOAN WILL GO TO STATE INVESTMENT BANK TO BE USED FOR FINANCING
INVESTMENTS OF STATE ECONOMIC ENTERPRISES. TERMS ARE 7 YEARS
WITH INTEREEST AT 1 3/4 PERCENT OVER LONDON INTERBANK RATE WITH
2 1/2 YEAR GRACE PERIOD. REPRESENTATIVES SAID THEY ALREADY
HAVE \$100 MILLION COMMITTED WITH MORGAN GUARANTY AND CITICORP
TAKING \$20 MILLION EACH.

3. BANK REPS SAID PREVIOUS BOTAS LOAN ARRANGED BY MERRILL LYNCH-
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BROWN SHIPLEY AT 1 1/2 PERCENT OVER LONDON INTERBANK RATE MADE IT

MORE DIFFICULT FOR THEM TO GET 1 3/4 PERCENT RATE. WHILE TURKS AGREED 1 1/2 PERCENT HAD BEEN COSMETIC AND REAL COST OF BOTAS LOAN WITH "SWEETENERS" AMY HAVE BEEN 1.86 PERCENT, POLITICAL CONSIDERATIONS MADE IT DIFFICULT FOR TURKISH OFFICIALS TO ACCEPT 1 3/4 PERCENT RATE. SYNDICATE GROUP WAS ABLE, HOWEVER, TO CONVINCE MINISTRY OF FINANCE THAT THERE WAS NO WAY TURKEY COULD OBTAIN MONEY CHEAPER THAN 1 3/4 PERCENT OVER LONDON INTERBANK RATE.

4. SYNDICATE AND MINISTRY OF FINANCE WILL FUDGE ISSUE OF WHETHER LOAN IS BALANCE OF PAYMENTS OR PROJECT-ORIENTED. LOAN WILL BE USED BY STATE INVESTMENT BANK FOR PROJECTS OF STATE ECONOMIC ENTERPRISES TO BE LATER DELINEATED, BUT SEEMS CLEAR GOT CONSIDERS IT BALANCE OF PAYMENTS LOAN TO EASE PRESENT CRITICAL BALANCE OF PAYMENTS SITUATION.

5. SYNDICATE REPS SAID THEY WERE CONCERNED ABOUT RAPIDLY RISING CONVERTIBLE LIRA ACCOUNTS AND WHETHER THESE COULD BE ROLLED OVER WHEN THE BULK COME DUE DURING THE SUMMER OF 1976. THEIR PRIMARY CONCERN, HOWEVER, WAS WHETHER CONVERTIBLE LIRA DEPOSITS WITH AN OSTENSIBLE 1 3/4 PERCENT SPREAD OVER LONDON RATE (BUT SPREAD SOMETIMES REACHES 3-5 PERCENT) FOR SHORT-TERM MONEY MIGHT NOT HAVE DRIED UP EURO-DOLLAR FINANCING FOR MEDIUM-TERM LOANS FOR TURKEY. NEVERTHELESS, GIVEN COMMITMENT OF \$100 MILLION ALREADY OBTAINED. THEY WERE CONFIDENT \$50 MILLION COULD BE SOLD TO OTHER LENDERS.

6. TURKISH MINISTRY OF FINANCE OFFICIALS HAVE CONFIRMED REPORTS THAT ARRANGEMENTS HAVE BEEN COMPLETED WITH THE IMF FOR THE GOT TO RECEIVE SDR 37.75 MILLION (ABOUT \$45 MILLION) UNDER THE IMF COMPENSATORY FINANCING ARRANGEMENT TO OFFSET DECLINE IN TURKEY'S EXPORT RECEIPTS THIS YEAR.

COMMENT: IN SHORT-TERM, EURO-DOLLAR LOAN WILL PROVIDE SOME RELIEF TO CURRENT BALANCE OF PAYMENTS DEFICIT. SHOULD IT BE AVAILABLE, AS PLANNED, PRIOR TO JANUARY 1, 1976, IT WOULD EVEN PROVIDE PRESENT GOVERNMENT WITH COSMETIC OPPORTUNITY TO MAKE END OF YEAR FOREIGN RESERVE POSITION LOOK BETTER THAN IT ACTUALLY IS. IN MEDIUM TERM, LOAN PROVIDES FOREIGN EXCHANGE FINANCING FOR DEVELOPMENTAL PROJECTS OF STATE ECONOMIC ENTERPRISES WHOSE INVESTMENT TARGETS

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HAVE SLIPPED DUE TO FOREIGN EXCHANGE SHORTAGES. LOAN OFFER ALSO PROVIDES SOME EVIDENCE THAT, DESPITE GROWING CONCERN OVER TURKEY'S SHORT TERM FOREIGN EXCHANGE SITUATION, INTERNATIONAL BANKING COMMUNITY APPEARS TO BE RELATIVELY MORE OPTIMISTIC ABOUT LONGER-RANGE PICTURE AND DEVELOPMENTAL PROSPECTS.

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